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SUBJECT: VISIT OF MCC CEO APPLGARTH TO SRI LANKA INCREASES  
GSL UNDERSTANDING OF COMPACT PROCESS

Classified By: Classified by DCM James F. Entwistle, reasons 1.4 b and  
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1. (SBU) Summary: During a March 29-31 visit to Sri Lanka, Millennium Challenge Corporation (MCC) CEO Paul Applegarth discussed Sri Lanka's potential compact proposal with President Kumaratunga, Prime Minister Rajapakse, Finance Minister Amunagama, Central Bank Governor Mendis, Opposition Leader Wickremesinghe, Foreign Secretary Palihakara, Finance Secretary Jayasundera, Presidential Advisor and Strategic

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Enterprise Management Agency Chairman Tittawella, as well as representatives from the Government of Sri Lanka's (GSL) Millennium Challenge Account (MCA) steering committee and members of the business community, NGOs and civil society. MCC left the GSL with "lessons learned" from the Madagascar compact negotiation process and helped clarify the requirement that compact proposals directly address poverty reduction through economic growth. Applegarth's visit was productive and well received by the GSL, which now needs to act on the momentum created by the visit. End Summary.

2. (U) MCC CEO Paul Applegarth visited Sri Lanka March 29-31 to discuss Sri Lanka's concept paper for MCA funding. During a series of meetings with high-ranking GSL officials and the leader of the opposition, as well as members of the business community, NGOs and civil society, Applegarth highlighted a number of themes designed to help Sri Lanka better organize its consultative process and enhance its eventual compact proposal.

3. (U) In each of his meetings, which included President Kumaratunga, Prime Minister Rajapakse, Finance Minister Amunagama and the MCA working group, Applegarth highlighted the need for Sri Lanka to think broadly about the potential for MCA funding, spell out clearly what the proposal was trying to accomplish, focus on proposals that would lead directly to poverty reduction through economic growth and embrace the fact that MCC has no preconceived notions about what projects or proposals would best suit Sri Lanka. Applegarth made clear that the compact proposal is entirely in the hands of the GSL and its partners in the consultative process.

4. (C) President Kumaratunga expressed satisfaction with the way the MCA process has been running in Sri Lanka and urged Applegarth to visit rural areas to see first hand the challenges to development. The President, who clearly had been briefed on MCC, but not the GSL's initial proposals, discussed several areas where she saw potential needs, including the education and health sectors. With some gentle prodding by the Finance Secretary, she then turned to several issues that are included in Sri Lanka's concept paper, including the development of small and medium enterprises and the redevelopment of irrigation reservoirs in rural areas.

15. (SBU) Prime Minister Rajapakse was particularly thoughtful on the MCA process, and was especially articulate in describing his own experience consulting with people in his constituency. He cited one example in which he visited with local leaders, presuming that electrical power was their primary need, only to learn that it was actually far down the list. A new road to the local fisheries harbor was what the community perceived as its most pressing need. Ambassador and Applegarth urged Rajapakse to share his views and experience widely in order to help push the Government's consultative process along.

16. (C) Finance Minister Amunagama discussed the need for small and medium enterprise (SME) development and described the GSL concept paper's consistency with the Government's overall economic development plan and budget priorities for 2005. Amunagama praised the GSL's MCA steering committee's efforts, and said the Ministry had explicitly chosen for their MCC project staff, "young, dynamic people" who were not afraid to challenge conventional wisdom and think outside the box (Note: while members of the MCA-related staff are young and well-educated, we hope the other characteristics will be made evident soon. End note).

17. (C) Former Prime Minister Ranil Wickremesinghe, leader of the opposition, welcomed Applegarth's visit and noted that it had been his Government's initiatives that made Sri Lanka MCA eligible. He belittled the current Government's ideas for MCA programs, noting especially that the proposed rural irrigation projects were aimed at increasing rice harvests, without changing policies on land use and crop diversification. According to Wickremesinghe, increased rice yields will simply dampen rice prices and make farmers worse off in the long run. When asked specifically if he thought the GSL would be able to conclude a suitable compact negotiation with MCC, Wickremesinghe chose to abandon any pretext of a willingness to cooperate with the Government and simply answered "no." (Note: thus far the opposition has been left out of the MCA consultative process in Sri Lanka. While Asia Foundation and Amcham will likely push for wider inclusion, it is not clear if they will be successful in garnering support for opposition participation. End note). Wickremesinghe gave a detailed assessment of why the political composition of the current coalition government makes progress on the economic front unlikely (owing to Marxist-Nationalist coalition partner Janatha Vimukthi Peramuna (JVP) sniping about economic reform efforts). Note: Wickremesinghe seemed in a mood to show his toughness. In addition to his scathing criticisms of the MCA proposal, he discussed several local political issues, including moves by the GSL to restructure the Ceylon Electricity Board and the Ceylon Petroleum Corporation, in the face of opposition by unions. Wickremesinghe's solution to these challenges is to allow the entities to collapse, then pick up the pieces when people have no choice but to follow. End note.

18. (SBU) During a dinner with senior Presidential economic advisor Tittawella, Central Bank Governor Mendis and Foreign Secretary Palihakara, Tittawella commented that, so far, he thought the GSL had, understandably, gotten distracted from the MCA process and had not fully embraced the unique nature of the opportunity. Now that the immediate needs of tsunami relief were behind it, the GSL should focus on MCA and its opportunities. He promised to brief the President and to work with the Finance Ministry to help push the consultative and

compact proposal process forward. Governor Mendis led a fairly wide ranging discussion of needs for diversification and better policies in the agricultural sector, pulling from his experience as head of one of Sri Lanka's largest conglomerate companies (where he served until retirement last year), which has a significant agricultural component.

19. (U) During a visit to Hambantota, an extremely poor province in southern Sri Lanka, Applegarth saw first hand the effects of the December 26 tsunami, and relief and reconstruction efforts that are underway. He visited a medium sized garment factory and heard about challenges to small and medium enterprises during a meeting with representatives from the Hambantota Chamber of Commerce. During a visit to a rehabilitated irrigation reservoir (Note: which did not look very "rehabilitated." End note), Applegarth had the opportunity to discuss challenges in the paddy sector with farmers and representatives from various GSL and local government agricultural departments. In one exchange, which provided useful fodder for discussions in Colombo, farmers indicated they would be willing to consider crop diversification, should they get information and training on how to grow and market new products. This statement was in direct contrast to previous assurances by local and central government representatives that paddy cultivation was a "cultural" issue and that farmers would not consider growing other crops. Following the visit to Hambantota, Applegarth visited Bodyline, a state-of-the-art garment manufacturer and an example of Sri Lanka's top-of-the-line manufacturing capabilities.

10. (SBU) Comment: CEO Applegarth's visit was positive and seemed to have provided some needed clarity for the GSL on issues ranging from the consultative process to the kinds of analysis MCC will seek when evaluating proposals. Asia Foundation and Amcham have already scheduled follow-up meetings and begun working with the GSL to advise them in their efforts to draft and implement a new consultative plan for the process of preparing a compact proposal. End Comment.  
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